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Agenda Item 4a

May 17, 2011

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Health Care Reform Quarterly Update

II. PROGRAM: Health Policy and Planning

III. RECOMMENDATION: Information Only

IV. ANALYSIS:

Extension of Dependent Coverage Taxability

On April 7, 2011, Governor Brown signed Assembly Bill (AB) 36 into law, conforming State law to federal law. The federal Affordable Care Act (ACA), effective March 23, 2010, exempts employer-provided health coverage for dependents under age 27 from taxation. With the passage of AB 36, California State tax law also exempts this coverage from taxation.

Early Retiree Reimbursement Program (ERRP)

The ERRP provides reimbursement to participating employment-based plans for a portion of the cost of health benefits for early retirees who are age 55 and older and not eligible for Medicare, their spouses, surviving spouses, and dependents. The U.S. Department of Health and Human Services (HHS) certified the CalPERS ERRP application last September.

In December 2010, CalPERS received its first ERRP reimbursement from HHS in the amount of $57,820,688. On April 15, 2011, CalPERS received its second quarterly reimbursement in the amount of $40,879,731. To date, CalPERS has received $98,700,419 in ERRP funds. The initial $5 billion in federal funding for ERRP is expected to be exhausted in 2012. The next claims submission is scheduled for July.

Accountable Care Organizations and the Medicare Shared Savings Program

Section 3022 of the ACA created the Medicare Shared Savings program, allowing Accountable Care Organizations (ACO) to contract with Medicare beginning in January 2012. On March 31, 2011, the Centers for Medicare and Medicaid Services (CMS) released proposed regulations to help doctors, hospitals, and suppliers provide better coordination of care for Medicare patients through the Medicare Shared Savings Program. This program is intended to

encourage development of ACOs in Medicare to improve care and reduce costs. Patient and provider participation in the Medicare Shared Savings Program is voluntary.

An ACO is a type of payment and delivery reform model that ties provider reimbursement to quality and reduces the total cost of care for a population of patients; a network of doctors and hospitals share responsibility for providing care to these patients. The ACO is accountable to patients and a third-party payer for the quality, appropriateness, and efficiency of the health care provided. An ACO may use a range of different payment models (e.g., capitation, fee-for-service with asymmetric or symmetric shared savings).

Under the proposed regulations, an ACO must have at least 5,000 fee-for-service Medicare beneficiaries and demonstrate minimum savings from benchmarks to benefit from the Shared Savings Program**.** To be eligible for shared savings, ACOs must also meet quality standards in five areas:

- patient care giver experience
- care coordination
- patient safety
- preventive health
- at risk populations/ frail elderly health

Please see Attachment 1 for a summary, developed by CMS, of the proposed ACO regulations under the Medicare Shared Savings Program.

The regulations do not impact existing CalPERS integrated health care programs, such as the Catholic Healthcare West and Hill Physicians Medical Group (CHW/Hill) Pilot Program with Blue Shield of California. While these proposed regulations apply only to the Medicare program, it is expected that there may be a broader application, and potential for shared savings, in the commercial market. Health Policy and Planning (HPP) staff, therefore, is analyzing the regulations to leverage provisions we may want to adopt within the CalPERS Integrated Health Care Model, our ACO-like program.

Partnership for Patients

On April 12, 2011, HHS announced the Partnership for Patients, a new national partnership that brings together leaders of major hospitals, employers, physicians, nurses, and patient advocates, along with state and federal governments, in a shared effort to make hospital care safer, more reliable, and less costly. CalPERS, along with other health care leaders, pledged our support for this new partnership.

The two goals of the partnership are to:

- *Keep hospital patients from getting injured or sicker*: By the end of 2013, decrease preventable hospital-acquired conditions by 40% compared to 2010.

- *Help patients heal without complication*: By the end of 2013, decrease preventable complications during a transition from one care setting to another, so that all hospital readmissions are reduced by 20% compared to 2010.

The Partnership for Patients is expected to help save 60,000 lives by stopping millions of preventable injuries and complications over the next three years; it also has the potential to save up to $35 billion in health care costs. The Partnership will target all forms of harm to patients but will start by asking hospitals to focus on nine types of medical errors and complications where the potential for dramatic reductions in harm rates has been demonstrated. Examples include preventing adverse drug reactions, pressure ulcers, childbirth complications and surgical site infections.

Potential Affordable Care Act Changes

HPP staff is monitoring potential changes to the ACA. In early April 2011, the House of Representatives (House) Energy and Commerce Committee passed legislation described below that would modify the ACA. These bills now move to a vote by the House. The bills include:

- H.R. 1214, which would amend the ACA to repeal the program requiring HHS to award grants to school-based health centers or their sponsoring facilities to support the operation of such health centers. The bill would also rescind any unobligated funds made available under such provisions.

- H.R. 1215, which would amend the personal responsibility education programs created by the ACA by eliminating direct appropriations of $75 million each year between 2012 and 2014. The bill would also authorize the appropriation of $75 million a year over that same period.

- H.R. 1216, which would rescind any unobligated funds that were appropriated by the ACA for health centers to expand or establish programs that provide training to medical residents. The bill also would amend the Public Health Service Act to make funding for future payments to those centers subject to annual discretionary appropriations. It would authorize the appropriation of $46 million a year for fiscal years 2012 through 2015 for such payments.

On May 3, 2011, the House passed H.R. 1213, which would block mandatory funding for state-based health insurance exchanges created under the ACA. The bill now moves to the Senate.

On April 13, 2011, the House passed H.R. 1217 to eliminate a provision in the ACA that provides $15 billion over 10 years for the Prevention and Public Health Fund. This fund supplies grants for preventive care and public health issues. The bill is now in the Senate Committee on Health, Education, Labor, and Pensions.

HPP staff is monitoring these bills to determine potential impacts to CalPERS.

V. STRATEGIC PLAN:

This directly relates to Goals X, XI, and XII of the Strategic Plan which state:

- "Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers."
- "Promote the ability of members and employers to make informed decisions resulting in improved lifestyle choices and health outcomes."
- "Engage and influence the healthcare marketplace to provide medical care that optimizes quality, access, and cost."

VI. RESULTS/COSTS:

This is an information only item.

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Attachment